

ORGANIZATIONAL LOSS ¹

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ABSTRACT:

Similarity between individual and organizational response to loss is documented through literature analysis and case studies in the automobile industry. An identity maintenance and adaptation thesis is developed to explain this similarity and provide a logic for a stage theory of loss. Risk-seeking behavior under loss is also explained.

INTRODUCTION

Loss has long been an important concept in psychology, and clinical therapists worldwide have long found Kubler-Ross' (1969) five stage model of loss – denial, anger, bargaining, depression, and acceptance – extremely useful in talking about, understanding, and treating those who experience a sharp break with the past. The model has been extended to a wide variety of loss situations, including matters relating to work, injury, and status.

In contrast, there is *no* consensus prescriptively, predictively, or even in words to describe organizations that experience sharp breaks. Organizational scholars see widely divergent patterns, running the gamut from neo-classical economists who see efficient diffusion of adaptive practices to organizational ecologists who view organizations as unchanging even in the face of environmental change. I propose that this may be due in part to a lack of attention paid to *timing* of responses and the absence of longitudinal studies (see McKinley 1993). In this paper, I propose that organizations and other social entities can also suffer loss and that when they do so pass through a pattern remarkably similar to that proposed by Kubler-Ross.

In this paper¹, I summarize the concept of (individual) response to loss, present auto industry data that provides support for this model at the organizational level, and explain why I think it holds at all social levels.

Background, Summary, and Applicability of Kubler-Ross' Model

Elizabeth Kubler-Ross developed her model through observations of how terminally ill patients reacted to being informed that they are going to die. Most went through some or all of the following five stages:

1. *Denial and shock*: The person denies that the loss is inevitable.
2. *Anger and irritability*: The person questions why the loss should be happening and feels resentful.
3. *Bargaining*: The person attempts to postpone the inevitable through appeal made to a high power by promise of a certain behavior or sacrifice if the wish is granted (i.e. "If I promise this or do that, I'll get better").
4. *Depression and beginning acceptance*: A period of hopelessness results in which the person recognizes that the loss is inevitable.
5. *Acceptance*: A more positive attitude regarding the loss, and readiness to move on.

At first glance, one may believe that this model, whatever its worth in thanatology, has limited application to the study of organizational adversity or decline, but the model has proven robust towards understanding individual loss generally. The Encyclopedia of Psychology discussion of "Loss and Grief," for example, focuses almost exclusively on Kubler-Ross' work and derivatives, noting that this "method of conceptualizing grief processes has proved quite popular and has been applied in a variety of forms to other losses including divorce, homosexual identity formation, and spinal cord injury." (Barón 1994). To this list, we can add recent studies on sports career death, family members of alcoholics, and unemployment.

AMERICAN AUTOMOBILE INDUSTRY: LOSS OF CUSTOMERS, STATUS AND PURPOSE

The American automobile industry in the aftermath of the Arab oil embargoes and emerging Japanese preeminence presents a particularly interesting case of loss, because three types of loss seem to have occurred: (1) customers – a large percentage of the world and domestic market; (2) industrial status – these firms' places near the top of the world industrial and social structure; and (3) purpose – much of their special competencies (e.g. mass production, rework; big, comfortable, muscle cars) lost their value.

¹ The original 30-page paper, "*Identity Maintenance and Adaptation: a Multilevel Analysis of Response to Loss*" includes a discussion of academic skepticism of Kubler-Ross, explanation and derivation of the identity thesis that I propose drives the process at all levels, review of case studies from the literature, additional data (with graphical representation) from the American auto industry research including analysis of the *differences* in response of the three companies, discussion of loss and motivation, an economics of identity, and an explanation of loss aversion.

Denial

In retrospect, Japanese momentum in auto making is hard to miss: While US production levels throughout the 1960s were cyclical with only a slight upward trend, Japanese sales were increasing at a steady rate of 25% annually - a trend which led to Japanese production surpassing US totals in 1980. Womack, Jones & Roos (1989) explain that this success was based on a revolutionary new industrial relations paradigms – lean production – that emphasizes just-in-time production and supply, efficient staffing, quality controls, rapid product development, and employee involvement.

To see if executive management were actively addressing this threat or these issues, I reviewed GM, Ford, and Chrysler annual report letters to shareholders beginning in 1963. Analysis reveals no mention of the Japanese competition and no company even mentions world market share until 1976. Yearly performance is evaluated, instead, on the basis of gross sales and profitability. Until the 1970s there is relatively little discussion even of domestic market share, and that, moreover, is strangely measured: In 1967, GM reported, “Market share of domestically produced cars is 51.8%.” In 1968, “54.7% of North-American type passenger cars.” The implication is that imports are a different market, less important, perhaps negligible.

The cataclysmic oil embargo of late 1973 would have seemed to have made the trend unmistakable – as gasoline prices increased fourfold and buyers had to endure long waits and rationing, consumer demand changed abruptly. But with the ensuing calm, American big-car buying patterns returned; building the big cars of old, Ford and GM both enjoyed record profits throughout the late 70s. Critics charge, however, that the companies were asleep at the wheel, ignoring Japanese technological advances and changing political economy that would ravage the industry in late 1979 with the second Arab oil embargo. Content analysis of GM’s letters to shareholders supports this conclusion. Only about **3%** of the lines of from 1970 through 1981 concern issues of design, production, and process – the areas in which Toyota and other Japanese firms had superseded them. Strikingly, over **40%** of the lines in the 12 years preceding the crisis (196-1978) are devoted to social issues (e.g. pollution regulations).

Anger

The steep decline in the fortunes of the American auto industry from 1980-82 did seem to elicit a great deal of anger. There were Japanese car-bashing parties, commercials showing them, and a grisly slaying in Detroit of an Asian-American (wrongly thought to be Japanese) for which the murderers received probation only. From mid 1980-1983 there were 21 stories of autoworker anger in the *New York Times*, compared to only one over the next four full years. Headlines from the period include:

- * DISPLAY OF JAPAN FLAG STARTS PROTEST AT PLANT
- * RESENTMENT OF JAPANESE IS GROWING
- * IN OHIO, THE ENEMY IS JAPAN

This anger was used, if not fomented, by American auto manufacturers much as individual anger is used – to protect their turf. Anger, resentment, and fear were at the heart of buy-American campaigns, protectionist legislation, and most successfully at convincing the Japanese of the wisdom of accepting a “voluntary” ceiling on their exports into America.

Bargaining at Chrysler

When conditions became serious for the companies, the normal bargaining which is part of being a business took on an unusual intensity. At Chrysler, there was a range of agreements with the unions and government unprecedented in American history. The Union lent money, renegotiated contracts at lower wages and benefits and received in return full access to the corporate books, profit sharing privileges and a seat on the Board of Directors.

Depression and Adaptation at Chrysler and Ford

Depression seemed to occur on several levels. Chrysler and Ford share values dropped to a fraction of their former value. Detroit and other auto communities suffered severe economic depression. Morale was low and not only because of economics – managers and workers throughout the company didn’t like learning from the Japanese: The joke circulated about the Japanese and American auto engineers who were to be sentenced to death and offered a final request. The Japanese engineer requested the customary last meal; the American simply said: “Shoot me first. I couldn’t bear to listen to another lecture on quality.”

I postulate that the apparent listlessness and uncoordinated activity of depression is a period of intense *internal* activity – Marris’ (1974) struggle “to consolidate all that is still valuable and important in the past, and preserve it

from loss; and at the same time, to reestablish a meaningful pattern of relationships.” This was such a period at Chrysler and Ford.

Chrysler’s depression came first. Between 1978 and 1980, the company had three major management reorganizations including change in the top two posts. There were massive layoffs and divestment. The company took on new partners in the government, union, and dealer network. It was a leaner, different company that emerged with different priorities and an all new market identity. The company focused fully on automotive operations with an emphasis on completely redesigned cars, quality, and marketing. Its promotions – direct appeal by the CEO, offering money for simply taking a test ride, and everything-covered, multi-year warranties – were genuinely innovative and effective.

Ford faced its depression next and also suffered through many changes. As with Chrysler, there were several top management changes, massive layoffs, and new priorities in quality and new product design. The company’s \$5.1 billion investment in Taurus/Sable was the greatest new product development effort in history. Like Chrysler, Ford emerged as a new company.

Confounding prevailing “liability of newness” theories, both companies have since prospered: \$1 invested in Ford at the beginning of 1982 was worth \$29.02 as of the end of 1993; invested in Chrysler it was worth \$59.02 (by contrast an S&P Index would have increased to \$3.80). Both have had strings of fine products: Ford Taurus has been the world’s most popular vehicle for a decade and Chrysler created a new, hugely popular market for the minivan.. In 1993, the *Wall Street Journal* ran a lead story about how, over the course of a decade, the fortunes of Chrysler and Ford on the one hand and Honda and Nissan on the other had precisely reversed position.

KUBLER-ROSS' MODEL OF RESPONSE TO LOSS GENERALIZED

Why do Individuals Respond This Way (and Why Would Organizations)?

To extend the Kubler-Ross model, it's necessary to consider *why* individuals behave in this manner. Early psychological crisis theory overlooked many aspects of the grief process and even tended to view these feelings and behaviors as dysfunctional (Simos 1979). Until Kubler-Ross and for some time thereafter, therapists focused on coping rather than grieving, the goal being to help people quickly resume the normal functioning experienced before the loss. This has changed to the point that Baron (1994) concludes his Encyclopedia of Psychology entry by noting, “These conceptualizations provide guidance in understanding the varieties of losses and grief reactions experienced by human beings and point toward helpful and healthy patterns of recovery.”

Stage 1. Denial

Denial is perhaps *easier* to see and accept at the collective level than at the individual. Starbuck, et. al. (1978) find that in organizational crises denial of need for strategic reorientation is standard practice. Individuals often have a vested interest in the status quo despite potential organizational benefits arising from change.

It may be more difficult to understand (especially for those of us who struggle so hard to find truth) why an individual might ignore or reject information concerning his own welfare on other than epistemological grounds. Accordingly, denial is widely seen as dysfunctional both for individuals and organizations. Kubler-Ross, however, regards denial in the face of learning about loss as healthy: “Denial functions as a buffer after unexpected shocking news, allows the patient to collect himself, and, with time, mobilize less radical defenses.”

One can tell a similar story of value in denial for the organization. Hannan and Freeman (1984) point out that selection processes favor organizations with high reliability and accountability; these traits require standardization, which in turn generates strong inertial pressures. Denial, for both the individual and the organization, is perhaps the necessary consequence of having ever been a successful entity. Furthermore, not all indications of loss are accurate, and even actual losses are often temporary – investors, suppliers, and customers can usually be replaced. In situations of ambiguity, a passing storm, and stochastic or cyclical change, “denial” may well be the most successful coping strategy. The alternative – identifying the loss – often sets us on a course to try to do something about it, which may not be in our best interest.

Cognitive limitations cause non-functional delays in acknowledging threats at all levels. Cohen, March & Olsen (1972) show that under heavy load, decision makers tend to ignore problems for which solutions are not available. Ocasio (1995) observes that prior to action, adversity must first be *enacted*: “Adversity cannot be determined by ‘objective’ measures, but rather through application of schemas which determine what measures are important and which levels of performance or external events constitute a threat.” Only in the time *since* the auto industry crisis, for example, have world market share figures been regularly collected and analyzed.

Unfortunately the standard story of inertia in the face of environmental change ends prematurely: for while both individuals and organizations have commitments which limit flexibility and while there are additional reasons why both may resist adaptation, neither people nor social systems normally fade away without a fight.

Stage 2. Anger

Anger is an unpleasant emotion, both to the possessor (linked with high blood pressure, heart attacks, etc. ...) and those around him. Kubler Ross notes that this stage is the most difficult for the family and loved ones, but adds that when denial can no longer be maintained, "the next *logical* question becomes, 'Why me?' ... We are angry at those who are taking life from us, mainly God, but anyone else who denies us: the nurse who impedes our mobility, the mother who prevented us from taking a trip when we could have, etc. ..."

Anger is a remarkable mechanism to protect ourselves, our family, our clan, etc. An assertion of anger is often enough to ward off an adversary, and if it fails to ward him off, it stimulates adrenaline to prepare for fight. Frank (1988) points out that economic reasoning leads to a serious deterrence problem; anger, however, signals commitment to retaliation even when the apparent costs may outweigh apparent benefits. Studies in humans and other primates show that anger and other emotion work effectively and efficiently as signaling devices: appropriate displays of emotional commitment not only lead others to refrain from opportunistic behavior, but allow for quick, haggle-free settlement of potential battle-provoking conflicts.

Organizations and other social entities face the same deterrence commitment problem that individuals do – for forty years, the U.S.A. and the U.S.S.R. had to convince each other that they would react angrily rather than with cool reason in the event of a crippling first strike by the other. And for over forty years, M.A.D. (mutually assured destruction) worked – perhaps because we did irrationally hate each other! This is an extreme case of the kind of signaling which organizations must continually make and monitor. For example, firms facing the possibility of a price war or market incursion must try to convince adversaries to refrain. Leaders regularly rally the troops against "enemies" – communists, Republicans, United Parcel Service, or Toyota. Rallies both motivate the organization and signal to adversaries that a particular behavior will not be tolerated.

Findings and reasoning from rigidity-threat theory are consistent with the logic of this phase. Staw et al.(1981) propose that acknowledged threat leads to restriction in information and constriction in control in organizations as it does physiologically in individuals during anger. Moreover, a leader trying to rally the troops accentuates the process. Centralization in response to threat has been documented by Singh (1986), Cameron, et al. (1987) and Starbuck, et al. (1978); the latter two articles also suggest a more generalized rigidity.

Stage 3. Bargaining

Kubler Ross describes the next maneuver of the terminally ill as bargaining: "If God has decided to take us from this earth and he did not respond to my angry demands then perhaps he will respond more favorably if we ask nicely."

These three stages can be readily observed in lesser forms of loss, transparently so in the behavior of small children: When we order them to do something they do not want to do – e.g. time to go to bed – they first ignore us hoping we'll do the same, then they might throw a tantrum or angrily refuse to obey. If that fails, they'll (note how quickly they recover) bargain, "Please just *five* minutes, then we'll go right to bed."

Bargaining hardly needs explanation. As the stock in trade of the economist, bargaining is *the* accepted form of business adaptation and change. All of life involves trade-offs, the reasoning goes; to get one good, we must give up another. What's striking is that it extends even to discussions with God about death: patients offer up all their vices and even body parts for a chance at survival.

The striking general feature about loss bargaining is how *painful* these trade-offs can be. The pain does not enter into the economic equation: we should be content if we can make a trade for something which provides higher utility, but that is *not* the way it feels.

Stage 4. Depression

Depression is both reactive – there has been loss – and preparatory – there will be still greater loss. What function does depression serve? Kubler-Ross says that depression serves to prepare the terminally ill patient for "his final separation from this world."

This stage is radically different from the preceding three: In the other three stages, we attempt to avoid loss; in this stage, we face it. A central tie has been severed; what can we do? Depression encompasses several elements

including grief and mourning. One important function of grief is to dissipate the anxiety and anger of stage 2 that constricts our options, limiting us to a maladaptive dominant response. Mourning may be necessary to acknowledge that the tie has been severed. In the absence of mourning, we try to simply recreate these ties rather than develop new ties more appropriate to our condition and the party with whom we wish to connect.

The word *depression* however signifies something beyond grief and mourning – perhaps a physiological slowdown necessary to limit arousal and anxiety (and thereby dominant response) prior to the formulation of genuinely adaptive behavior consistent with a new identity and new pattern of social ties.

Depression in individuals is an inward phenomenon. Psychoanalytic theories assert that depression is anger-turned inward. Therapists observe that patients who can't get angry at others become depressed (Hirschfield and Shea, 1985). Depression could also be seen as bargaining-turned-inward. We struggle within ourselves to decide what to preserve what to give up what values to maintain (cognitive identity) and what realities to accept (structural identity).

Depression as such, like denial, may also be easier understood as a collective phenomenon than an individual one. Staw et al. (1981) review research showing that whereas competition initially increases group cohesion, losing groups subsequently suffer a decrease in cohesion. Empirically, we see this phenomenon ubiquitously – a country, a political party, a team quickly unites behind a winner; an internal battle for leadership breaks out in the face of defeat.

An inward struggle implies reduced outward activity or depression. The second half of the identity maintenance and adaptation theory suggests the explanation for this slowdown – spanning the chasm created by loss requires a great deal of construction, and perhaps some preparatory dynamite to break down obsolete cognitive structures and parts of a no-longer-adequate network of relations.

Resistance to adaptation.

Many early theories of organizational adaptation such as contingency theory observed reasonably functional fit and emphasized the nature of structural functionality. Much of organization theory since has challenged the notion of functionality both positively and normatively (functional for whom?). The identity theory put forth here attempts to reconcile these traditions: Adaptation occurs; at some point, it's necessary for survival or desirable for any number of reasons. Those who laud adaptation and change, however, must recognize what's lost in the process. The apt image of organizational change is perhaps domestication of an elephant. *National geographic* (1983) painfully documented the brutal process: an adolescent elephant is tricked away from his pride, after which he refuses to eat for days, wails incessantly, and does anything including self-mutilation to get free. It takes three months or more of what could only be described as torture to "break" the creature and make him amenable to service.

Stage 5. Acceptance

This paper has been framed to consider a baffling phenomenon as viewed through the lens of rational choice: Why waste time crying over "spilt milk"? We'd rather not lose our eyesight, for example, but once it's lost, neither denial, nor anger, nor bargaining, nor depression will do anything to get it back.

Those intellectually forged in sociological traditions may be inclined to raise the opposite question: How do we change and adapt at all? From this vantage point, one might see human beings as extraordinarily malleable: non-disabled people might find the thought of life without sight as unbearable. Soon after it happened, we might feel even worse because blindness is handicapping in so many more ways than the sighted can imagine. But with time, people do accept this and other losses. Reference groups change, goals change, and life is still every bit as worth living as before, sometimes more so, because little things are appreciated anew.

Viewed from both sides, people are a remarkable compromise between commitment and adaptation. Institutions and organizations that have institutional qualities share an equivalent need to balance these two goods. Looking around us and seeing the mix of change and continuity suggests that they do so, at least to a rough approximation.

CONCLUSION:

Stage Theory as Empirical Generalization

While Kubler-Ross' model has been overwhelmingly embraced by clinicians, the scientific community is skeptical, in large part because of the questionable applicability of a stage model. I propose not a strict developmental model, but rather an empirical generalization: this model is the *most likely* pattern of response. Loss is a retrospective account; in the beginning, we do not know how a potential loss will run its course. The process makes sense prospectively if we think of each stage as the next level of a decision tree:

• Stage 1: Denial	Is the event/information something we can ignore? Can we continue business-as-usual?	If no, proceed to:
• Stage 2: Anger	Can we prevent the change?	If no, proceed to:
• Stage 3: Bargaining	Can we mitigate the effects?	The less we can, the more extensive the ensuing,
• Stage 4: Depression	What changes must we make in order to go on?	Can we consolidate what is still valuable from the past, <u>and</u> reestablish a meaningful pattern of relationships? If yes, then
• Stage 5: Acceptance	Having made these changes, is existence viable?	The better the "solutions" in "depression," the more successful the ultimate acceptance and adaptation.

Summary

In this essay, I've (1) introduced the concept of organizational loss and claimed that this framework can reconcile various schools of organization theory by offering a temporal sequence along which each is salient at a particular time; and (2) provided a logic for a Kubler-Ross' stage theory of loss.

My larger goal, however, is to add dimension to our understanding of ourselves and our institutions – dimension that highlights emotions, commitment, and the subtle interplay of constancy and change. *Loss* has always been close to the heart of literature and the humanities – it also warrants a place in the frontal lobe of social science.

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